

TOWNSHIP OF SHARON
Washtenaw County, Michigan

FINANCIAL REPORT WITH
SUPPLEMENTARY INFORMATION

Year Ended June 30, 2006

AUDITING PROCEDURES REPORT

Issue under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type <input type="checkbox"/> City <input checked="" type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name Township of Sharon	County Washtenaw
Audit Date June 30, 2006	Opinion Date November 30, 2006	Date Accountant Report Submitted to State: December 13, 2006	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- | | |
|---|--|
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input checked="" type="checkbox"/> yes <input type="checkbox"/> no | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 6. The local unit has been delinquent distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during they year). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	X		
Reports on individual federal financial assistance programs (program audits).			X
Single Audit Reports (ASLGU).			X

Certified Public Accountant (Firm Name) Campbell, Kusterer & Co., P.C.			
Street Address 512 N. Lincoln, Suite 100, P.O. Box 686		City Bay City	State MI
Accountant Signature Campbell, Kusterer & Co., P.C.		Zip 48707	

TOWNSHIP OF SHARON
Washtenaw County, Michigan

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CAMPBELL, KUSTERER & CO., P.C.

CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITOR'S REPORT

November 30, 2006

To the Township Board
Township of Sharon
Washtenaw County, Michigan

We have audited the accompanying financial statements of the governmental activities and each major fund of Township of Sharon, Washtenaw County, Michigan as of and for the year ended June 30, 2006, which collectively comprise the Township's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Township of Sharon's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Township of Sharon, Washtenaw County, Michigan as of June 30, 2006, and the respective changes in financial position thereof, for the year ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis and budgetary comparison information listed in the table of contents are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the Township's basic financial statements. The other supporting information described in the accompanying table of contents is presented for the purpose of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied by us in the audit of the basic financial statements and, in our opinion, it is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Campbell, Kusterer & Co., P.C.
CAMPBELL, KUSTERER & CO., P.C.
Certified Public Accountants

TOWNSHIP OF SHARON
Washtenaw County, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS
For the year ended June 30, 2006

The Management's Discussion and Analysis report of the Township of Sharon covers the Township's financial performance during the year ended June 30, 2006.

FINANCIAL HIGHLIGHTS

The Sharon Township financial statements demonstrate a continuing stable operation over the last year. While the economy remained somewhat weak the Township was able to adjust to the ongoing challenges. Highlights of the major categories are:

Assets – The Township assets remained consistent throughout the year with our major asset still being the Township Hall with its associated office equipment. The Township does not have any other infrastructure assets.

Revenue – Revenue grew \$26,483.67 or 11.5% in a year that many governments were experiencing significant revenue reductions.

Expenses – Expenses grew \$15,361.95 or 7.37% in a year that saw costs continue to rise and cost reductions continue to be pursued.

Budget – The budget for year ending June 2006 was \$227,600.00 for both revenues and expenses. Revenues of \$264,592.70 exceeded budget by \$36,992.70 and expenses of \$230,201.34 exceeded budget by \$2,601.34.

Tax Base – The Assessed Value of the Township increased \$7,913,231 or 6.25% from \$126,583,248 to \$134,496,479. The Taxable Value increased \$4,286,648 or 5.31% from \$80,647,501 to \$84,934,149.

Debt – The Township continued to remain debt free throughout the year.

Fund Balance – The Township ended the year with a fund balance approaching \$400,000. Year ending June 2006 added \$32,663.94 to the reserve fund after adding \$21,542.62 the previous year. While this is not a large amount in itself, it is significant as a percentage of the budget.

Future Operations – The Township signed a development agreement that will contribute almost \$200,000 to Township revenues over the next five years.

OVERVIEW OF FINANCIAL STATEMENTS

This annual report consists of three parts, management's discussion and analysis, the basic financial statements and required supplementary information. The basic financial statements include two different kinds of statements that present different views of the Township and the notes to the financial statements.

The first two statements are entity-wide financial statements and provide both long and short-term information about our overall financial status. These statements present government activities.

The remaining statements are fund financial statements, which focus on individual parts of the Township in more detail.

The notes to the financial statements explain some of the information in the statements and provide more detailed data.

Required supplementary information further explains and supports the financial statement information with budgetary comparisons.

TOWNSHIP OF SHARON
Washtenaw County, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS
For the year ended June 30, 2006

ENTITY-WIDE FINANCIAL STATEMENTS

The entity-wide statements report information about the Township as a whole using accounting methods used by private companies. The statement of net assets includes all of the Township's assets and liabilities. The statement of activities records all of the current year revenues and expenses regardless of when received or paid.

The two entity-wide statements report net assets and how they have changed. Net assets are the difference between the entity's assets and liabilities and this is one method to measure the entity's financial health or position.

Over time increases/decreases in the entity's net assets are an indicator of whether financial position is improving or deteriorating.

To assess overall health of the entity you may also have to consider additional factors such as tax base changes, facility conditions and personnel changes.

All of the activities of the Township are reported as governmental activities. This includes the General Fund.

FUND FINANCIAL STATEMENTS

Fund statements provide detailed information about the Township funds as a whole. Funds are used to account for specific activities or funding sources. Funds are established to account for funding and spending of the remaining accounts fall into three categories:

Governmental Funds: This General Fund Account is the account that receives the revenues from the normal business of the Township as well as Township tax receipts. Most of the Townships activities are included in this fund. The fund is based on modified accrual accounting method. All expenses are paid from this fund. There were no significant changes in the General Fund.

Fiduciary Funds: The Township maintains a Tax Fund Account that is for the deposit and safe keeping of tax funds until they are distributed to the appropriate entities. The Township deposits only tax receipts to this account and distributes these funds on a timely basis to the appropriate parties. Through this process funds are kept separate and fully accounted prior to settling with Washtenaw County at the end of the tax collection period. There were no significant changes in this fund.

FINANCIAL ANALYSIS OF THE TOWNSHIP AS A WHOLE

The Township's financial position remained very stable. Revenues were down slightly but expenses were reduced at the beginning of the year to recognize the lack of stability in the economy.

- 1) Statutory Revenue Sharing was eliminated to the Township from the State of Michigan reducing the largest source of income.
- 2) The Township ended the year with a surplus of \$34,391.36 to add to the fund balance.
- 3) The Township ended the year with a fund balance of \$418,153.16.
- 4) The Township has continued to work on its fee schedule to ensure that fees reflect the costs associated with projects within the Township. This concentrated effort has assisted in keeping revenues in line with expenses.
- 5) The main capital asset continues to be the Township hall built in 1917. The Township capital assets other than the Township hall are mainly computers and voting machines.

TOWNSHIP OF SHARON
Washtenaw County, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS
For the year ended June 30, 2006

FINANCIAL ANALYSIS OF THE TOWNSHIP'S FUNDS

Several major expenses dominate the General Fund. These five major expenses together make up 832% of the \$230,201.34 in expenditures from the General Fund. They are:

- 1) Township officials salaries and associated payroll tax of \$74,094.00.
- 2) Contracted Fire Protection from Manchester Township of \$56,003.74.
- 3) Contracted Dust Control for roads from Washtenaw County Road Commission of \$21,568.80.
- 4) Contracted Professional Services (Attorney, Assessor, Planner) of \$28,382.00.
- 5) Township Insurance of \$11,465.00.

CAPITAL ASSET AND LONG-TERM DEBT ACTIVITY

Capital assets play a very minor role in Sharon Township. The Township does not have any infrastructure, police, fire, or public service organizations. The 1917 Township hall remains unchanged. The Township did obtain a voting system and two filing cabinets during the year thereby increasing capital assets by \$7,622.00. The Township currently owns three computers and the voting system as its assets other than the Township hall.

The Township currently has no debt outstanding on any item and does not envision taking on any debt in the 2006-2007 fiscal year.

KNOWN FACTORS AFFECTING FUTURE OPERATIONS

The Township faces increasing growth pressures. With this growth will need to come major changes in the Township. Currently the Township has no infrastructure or services to support additional population. The Township has started to maintain office hours however some business is still conducted out of the individual officials' homes. Police service is provided by the State Police and fire protection by a neighboring fire department.

The Township has adopted a new Zoning Ordinance to replace the previous one adopted in 1974. The new ordinance provides some needed updates for the zoning uses of the Township.

During this period a development agreement was negotiated with a developer that will substantial benefit the Township. The agreement calls for payment of \$150,000 to the Township over five years. This amount will earn 6% interest and will total just under \$200,000 by the end of that period. These funds will help the Township transition during this growth period.

With the election of a new treasurer the Township experienced some issues with the learning curve. In addition, this position required more time than the individual was able to devote to performing this important task. After struggling with it for 19 months, the new treasurer offered his resignation. The effects were seen in the Township operations in some of the following areas:

- a. Entries were not entered into the records in a timely basis.
- b. Expenses were not submitted or approved on a timely basis.
- c. Township billing did not occur on a timely basis.

The entries are now correctly entered. Township billing for fire and rescue runs was not completed for an extended period of time reducing both revenue for the year ending June 2006 and may result in some funds not being collected that would have been if the correct procedure had been followed. An effort is underway to evaluate and pursue collection of these charges.

The Township is now holding office hours and these are assisting in communication and follow up on these items. We have seen much improved operations with the commencement of office hours. Quarterly reviews will now be held to highlight key issues for the Township Board.

TOWNSHIP OF SHARON
Washtenaw County, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS
For the year ended June 30, 2006

CONTACTING THE TOWNSHIP'S MANAGEMENT

This financial report is designed to provide a general overview of the Townships finances and demonstrate the Townships accountability for the revenue it receives. Any questions concerning this report please contact the Township Clerk at 734-428-7002 or the Township Supervisor at 734-428-0409 during the hours of 8:30am to 5pm.

TOWNSHIP OF SHARON
Washtenaw County, Michigan

GOVERNMENT-WIDE STATEMENT OF NET ASSETS
June 30, 2006

	<u>Governmental Activities</u>
ASSETS:	
CURRENT ASSETS:	
Cash in bank	13 561 76
Investments	392 477 40
Due from State of Michigan	<u>17 114 00</u>
Total Current Assets	<u>423 153 16</u>
NONCURRENT ASSETS:	
Capital Assets	53 767 22
Less: Accumulated Depreciation	<u>(41 282 48)</u>
Total Noncurrent Assets	<u>12 484 74</u>
TOTAL ASSETS	<u><u>435 637 90</u></u>
LIABILITIES AND NET ASSETS:	
LIABILITIES:	
CURRENT LIABILITIES:	
Accounts payable	<u>5 000 00</u>
Total Current Liabilities	<u>5 000 00</u>
NET ASSETS:	
Invested in Capital Assets, Net of Related Debt	12 484 74
Unrestricted	<u>418 153 16</u>
Total Net Assets	<u>430 637 90</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>435 637 90</u></u>

The accompanying notes are an integral part of these financial statements.

TOWNSHIP OF SHARON
Washtenaw County, Michigan

GOVERNMENT-WIDE STATEMENT OF ACTIVITIES
Year ended June 30, 2006

	<u>Expenses</u>	<u>Program Revenue</u>	<u>Governmental Activities Net (Expense) Revenue and Changes in Net Assets</u>
FUNCTIONS/PROGRAMS			
Governmental Activities:			
Legislative	3 600 00	-	(3 600 00)
General government	98 534 83	25 267 58	(73 267 25)
Public safety	80 674 43	20 484 34	(60 190 09)
Public works	25 031 99	-	(25 031 99)
Other	17 099 85	-	(17 099 85)
Total Governmental Activities	<u>224 941 10</u>	<u>45 751 92</u>	<u>(179 189 18)</u>
General Revenues:			
Property taxes			71 243 59
State revenue sharing			120 528 70
Interest			18 049 81
Miscellaneous			<u>9 018 68</u>
Total General Revenues			<u>218 840 78</u>
Change in net assets			39 651 60
Net assets, beginning of year			<u>390 986 30</u>
Net Assets, End of Year			<u>430 637 90</u>

The accompanying notes are an integral part of these financial statements.

TOWNSHIP OF SHARON
Washtenaw County, Michigan

BALANCE SHEET – GOVERNMENTAL FUNDS
June 30, 2006

	<u>Total</u>
<u>Assets</u>	
Cash in bank	13 561 76
Investments	392 477 40
Due from State of Michigan	<u>17 114 00</u>
Total Assets	<u><u>423 153 16</u></u>
<u>Liabilities and Fund Equity</u>	
Liabilities:	
Accounts payable	<u>5 000 00</u>
Total liabilities	<u>5 000 00</u>
Fund equity:	
Fund balances:	
Unreserved:	
Undesignated	<u>418 153 16</u>
Total fund equity	<u>418 153 16</u>
Total Liabilities and Fund Equity	<u><u>423 153 16</u></u>

The accompanying notes are an integral part of these financial statements.

TOWNSHIP OF SHARON
Washtenaw County, Michigan

RECONCILIATION OF BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
June 30, 2006

TOTAL FUND BALANCES – GOVERNMENTAL FUNDS	418 153 16
Amounts reported for governmental activities in the statement of net assets are different because –	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds balance sheet:	
Capital assets at cost	53 767 22
Accumulated depreciation	<u>(41 282 48)</u>
TOTAL NET ASSETS – GOVERNMENTAL ACTIVITIES	<u><u>430 637 90</u></u>

The accompanying notes are an integral part of these financial statements.

TOWNSHIP OF SHARON
Washtenaw County, Michigan

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES –
GOVERNMENTAL FUNDS
Year ended June 30, 2006

	<u>Total</u>
Revenues:	
Property taxes	71 243 59
Licenses and permits	16 673 12
State revenue sharing	120 528 70
Charges for services:	
Property tax administration	23 767 58
Fire runs	5 311 22
Interest	18 049 81
Miscellaneous	<u>9 018 68</u>
Total revenues	<u>264 592 70</u>
Expenditures:	
Legislative:	
Township Board	3 600 00
General government:	
Supervisor	22 500 00
Assessor	9 900 00
Legal	6 318 85
Elections	555 00
Clerk	17 730 00
Board of Review	900 00
Treasurer	17 730 00
Building and grounds	6 985 86
Cemetery	2 524 21
Unallocated	11 024 15
Public safety:	
Fire protection	56 003 74
Protective inspection	6 900 00
Planning Commission	16 535 69
Appeals Board	1 235 00
Public works:	
Highways and streets	21 568 80
Drains	3 463 19
Other:	
Insurance	11 465 00
Social security	5 634 85
Capital outlay	<u>7 627 00</u>
Total expenditures	<u>230 201 34</u>
Excess of revenues over expenditures	34 391 36
Fund balance, July 1	<u>383 761 80</u>
Fund Balance, June 30	<u><u>418 153 16</u></u>

The accompanying notes are an integral part of these financial statements.

TOWNSHIP OF SHARON
Washtenaw County, Michigan

RECONCILIATION OF THE STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN
FUND BALANCE OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
Year ended June 30, 2006

NET CHANGE IN FUND BALANCES – TOTAL GOVERNMENTAL FUNDS 34 391 36

Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental funds report capital outlays as expenditures; in the Statement of Activities,
these costs are allocated over their estimated useful lives as depreciation

Depreciation Expense	(2 366 76)
Capital Outlay	<u>7 627 00</u>

CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES 39 651 60

The accompanying notes are an integral part of these financial statements.

TOWNSHIP OF SHARON
Washtenaw County, Michigan

NOTES TO FINANCIAL STATEMENTS
June 30, 2006

Note 1 – Summary of Significant Accounting Policies

The accounting policies of the Township of Sharon, Washtenaw County, Michigan, conform to generally accepted accounting principles as applicable to governmental units.

Reporting Entity

The financial statements of the Township contain all the Township funds that are controlled by or dependent on the Township's executive or legislative branches.

The reporting entity is the Township of Sharon. The Township is governed by an elected Township Board. As required by generally accepted accounting principles, these financial statements present the Township as the primary government.

Government-Wide and Fund Financial Statements

The government-wide financial statements, (the Statement of Net Assets and the Statement of Changes in Net Assets) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. All the Township's government-wide activities are considered governmental activities.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: (1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes, intergovernmental payments and other items not properly included among program revenues are reported as general revenue.

Major individual governmental funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. When an expense is incurred for purposes for which both restricted and unrestricted net assets are available, restricted resources are applied first.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

TOWNSHIP OF SHARON
Washtenaw County, Michigan

NOTES TO FINANCIAL STATEMENTS
June 30, 2006

Note 1 – Summary of Significant Accounting Policies (continued)

Governmental Fund

General Fund

This fund is used to account for all financial transactions except those required to be accounted for in another fund. The fund includes the general operating expenditures of the local unit. Revenues are derived primarily from property taxes, state and federal distributions, grants, and other intergovernmental revenues.

Fiduciary Fund

The Current Tax Collection Fund is used to account for assets held as an agent for others.

Assets, Liabilities and Net Assets or Equity

Bank deposits and investments – Cash and cash equivalent investments include cash on hand, demand deposits, certificates of deposit and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Receivables

Receivables have been recognized for all significant amounts due to the Township. Allowances for uncollectible accounts have not been provided for in that collection is not considered doubtful and any uncollected amount would be immaterial.

Inventories

Inventories of supplies are considered to be immaterial and are not recorded.

Property Taxes

Property taxes and other revenue that are both measurable and available for use to finance operations are recorded as revenue when earned.

Properties are assessed as of December 31 and the related property taxes become a lien on December 1 of the following year. These taxes are due on February 14 with the final collection date of February 28 before they are added to the county tax rolls. The Township 2005 tax roll millage rate was .8882 mills, and the taxable value was \$80,217,381.00.

Capital Assets

Capital assets are defined by the Township as assets with an initial cost of more than \$500.00 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost. Donated assets are reported at estimated fair market value at the date of donation. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives:

Buildings	50 years
Furniture and equipment	3-7 years

TOWNSHIP OF SHARON
Washtenaw County, Michigan

NOTES TO FINANCIAL STATEMENTS
June 30, 2006

Note 1 – Summary of Significant Accounting Policies (continued)

Compensated Absences (Vacation and Sick Leave)

Township employees are not allowed to accumulate vacation and sick pay and therefore no accumulated amount is recorded in the financial statements.

Post-employment Benefits

The Township provides no post-employment benefits to past employees.

Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Note 2 – Budgets and Budgetary Accounting

The following procedures are followed in establishing the budgetary data reflected in these general purpose financial statements:

1. Prior to the beginning of the fiscal year, the proposed budget for each budgetary fund is submitted to the Township Board for consideration.
2. The proposed budgets include expenditures as well as the methods of financing them.
3. Public hearings are held to obtain taxpayer comments.
4. The budgets are adopted at the activity level by a majority vote of the Township Board.
5. The budgets are adopted on the modified accrual basis of accounting.
6. The originally adopted budgets can be amended during the year only by a majority vote of the Township Board.
7. The adopted budgets are used as a management control device during the year for all budgetary funds.
8. Budget appropriations lapse at the end of each fiscal year.
9. The budgeted amounts shown in these general purpose financial statements are the originally adopted budgets with all amendments that were approved by the Township Board during the fiscal year.

TOWNSHIP OF SHARON
Washtenaw County, Michigan

NOTES TO FINANCIAL STATEMENTS
June 30, 2006

Note 3 – Deposits and Investments

Michigan Compiled Laws, Section 129.91, authorizes the Village to deposit and invest in the accounts of federally insured banks, credit unions, and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or federal agency obligation repurchase agreements; banker's acceptance of United States banks; commercial paper rated within the two highest classifications, which mature not more than 270 days after the date purchase; obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan.

The Township Board has designated four banks for the deposit of Township funds. The investment policy adopted by the board in accordance with Public Act 196 of 1997 has authorized investment in all investments authorized by state law as listed above.

The Township's deposits and investments are in accordance with statutory authority.

The Governmental Accounting Standards Board Statement No. 3, risk disclosures for the cash deposits are as follows:

	<u>Carrying Amounts</u>
Total Deposits	<u>13 561 76</u>

Amounts in the bank balances are without considering deposits in transit or uncleared checks.

	<u>Bank Balances</u>
Insured (FDIC)	13 561 76
Uninsured and Uncollateralized	<u>-</u>
Total Deposits	<u>13 561 76</u>

The Township's investments are categorized below to give an indication of the level of risk assumed by the Township. Risk category 1 includes those investments that meet any one of the following criteria: insured, registered, or held by the Township or its agent. Risk categories 2 and 3 include investments that are neither insured nor registered. Category 2 includes investments that are held by the counterparty's trust department (or agent) in the Township's name. Category 3 includes investments held by the counterparty or the counterparty's trust department (or agent) but not in the Township's name.

TOWNSHIP OF SHARON
Washtenaw County, Michigan

NOTES TO FINANCIAL STATEMENTS
June 30, 2006

Note 3 – Deposits and Investments (continued)

The GASB Statement No. 3 risk disclosures for the Township's investments are categorized as follows:

<u>Investment Type</u>	<u>(1)</u>	<u>(2)</u>	<u>(3)</u>	<u>Carrying Amount</u>
Risk-Categorized:				
Operating Funds	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Risk-Categorized Investments	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Nonrisk-Categorized:				
Financial Institution Pooled Funds				<u>392 477 40</u>
Total Investments				<u>392 477 40</u>

The financial institution pooled funds are not categorized because they are not evidenced by securities that exist in physical or book entry form. Management believes that the investments in the funds comply with the investment authority noted above.

Note 4 – Capital Assets

Capital asset activity of the Township's Governmental activities for the current year was as follows:

	<u>Balance 7/1/05</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 6/30/06</u>
Land	2 500 00	-	-	2 500 00
Buildings	25 000 00	-	-	25 000 00
Furniture and equipment	<u>18 640 22</u>	<u>7 627 00</u>	<u>-</u>	<u>26 267 22</u>
Total	46 140 22	7 627 00	-	53 767 22
Accumulated Depreciation	<u>(38 915 72)</u>	<u>(2 366 76)</u>	<u>-</u>	<u>(41 282 48)</u>
Net Capital Assets	<u>7 224 50</u>	<u>5 260 24</u>	<u>-</u>	<u>12 484 74</u>

Note 5 – Interfund Receivables and Payables

The amounts of interfund receivables and payables are as follows:

<u>Fund</u>	<u>Interfund Receivable</u>	<u>Fund</u>	<u>Interfund Payable</u>
General	<u>8 500 44</u>	Current Tax Collection	<u>8 500 44</u>

Note 6 – Pension Plan

The Township does not have a pension plan.

TOWNSHIP OF SHARON
Washtenaw County, Michigan

NOTES TO FINANCIAL STATEMENTS
June 30, 2006

Note 7 – Deferred Compensation Plan

The Township does not have a deferred compensation plan.

Note 8 – Risk Management

The Township is exposed to various risks of loss related to property loss, torts, errors, omissions, and employee injuries (workers' compensation). The Township has purchased commercial insurance for property loss, torts and workers' compensation claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

Note 9 – Building Permits

The Township of Sharon does not issue building permits. Building permits are issued by the Chelsea Area Construction Agency, a local governmental unit.

Note 10 – Budget Variance

During the fiscal year ended June 30, 2006, Township expenditures exceeded the budgeted amounts in the activities as follows:

	<u>Total Budget</u>	<u>Total Expenditures</u>	<u>Excess Expenditures</u>
General Fund Activity:			
Elections	-	555 00	555 00
Fire protection	50 000 00	56 003 74	6 003 74
Appeals Board	600 00	1 235 00	635 00
Highways and streets	20 000 00	21 568 80	1 568 80
Drains	2 700 00	3 463 19	763 19
Capital outlay	2 300 00	7 627 00	5 327 00

TOWNSHIP OF SHARON
Washtenaw County, Michigan

BUDGETARY COMPARISON SCHEDULE – GENERAL FUND
Year ended June 30, 2006

	Original Budget	Final Budget	Actual	Variance with Final Budget Over (Under)
Revenues:				
Property taxes	70 000 00	70 000 00	71 243 59	1 243 59
Licenses and permits	9 200 00	9 200 00	16 673 12	7 473 12
State revenue sharing	115 000 00	115 000 00	120 528 70	5 528 70
Charges for services:				
Property tax administration	18 000 00	18 000 00	23 767 58	5 767 58
Fire runs	12 000 00	12 000 00	5 311 22	(6 688 78)
Interest	1 400 00	1 400 00	18 049 81	16 649 81
Miscellaneous	2 000 00	2 000 00	9 018 68	7 018 68
Total revenues	<u>227 600 00</u>	<u>227 600 00</u>	<u>264 592 70</u>	<u>36 992 70</u>
Expenditures:				
Legislative:				
Township Board	3 600 00	3 600 00	3 600 00	-
General government:				
Supervisor	22 500 00	22 500 00	22 500 00	-
Assessor	10 800 00	10 800 00	9 900 00	(900 00)
Legal	10 000 00	10 000 00	6 318 85	(3 681 15)
Elections	-	-	555 00	555 00
Clerk	17 730 00	17 730 00	17 730 00	-
Board of Review	900 00	900 00	900 00	-
Treasurer	17 730 00	17 730 00	17 730 00	-
Building and grounds	7 450 00	7 450 00	6 985 86	(464 14)
Cemetery	3 000 00	3 000 00	2 524 21	(475 79)
Unallocated	11 600 00	11 600 00	11 024 15	(575 85)
Public safety:				
Fire protection	50 000 00	50 000 00	56 003 74	6 003 74
Protective inspection	6 900 00	6 900 00	6 900 00	-
Planning Commission	21 190 00	21 190 00	16 535 69	(4 654 31)
Appeals Board	600 00	600 00	1 235 00	635 00
Public works:				
Highways and streets	20 000 00	20 000 00	21 568 80	1 568 80
Drains	2 700 00	2 700 00	3 463 19	763 19
Other:				
Insurance	12 800 00	12 800 00	11 465 00	(1 335 00)
Social security	5 800 00	5 800 00	5 634 85	(165 15)
Capital outlay	2 300 00	2 300 00	7 622 00	5 327 00
Total expenditures	<u>227 600 00</u>	<u>227 600 00</u>	<u>230 201 34</u>	<u>2 601 34</u>
Excess of revenues over expenditures	-	-	34 391 36	34 391 36
Fund balance, July 1	<u>-</u>	<u>-</u>	<u>383 761 80</u>	<u>383 761 80</u>
Fund Balance, June 30	<u>-</u>	<u>-</u>	<u>418 153 16</u>	<u>418 153 16</u>

TOWNSHIP OF SHARON
Washtenaw County, Michigan

GENERAL FUND EXPENDITURES BY DETAILED ACCOUNT
Year ended June 30, 2006

Township Board:	
Wages	<u>3 600 00</u>
Supervisor:	
Salary	<u>22 500 00</u>
Assessor:	
Contracted services	<u>9 900 00</u>
Legal	<u>6 318 85</u>
Elections	<u>555 00</u>
Clerk:	
Salary	17 500 00
Salary – deputy	<u>230 00</u>
	<u>17 730 00</u>
Board of Review	<u>900 00</u>
Treasurer:	
Salary	17 500 00
Salary – deputy	<u>230 00</u>
	<u>17 730 00</u>
Building and grounds:	
Utilities	2 602 88
Miscellaneous	<u>4 382 98</u>
	<u>6 985 86</u>
Cemetery:	
Repairs and maintenance	<u>2 524 21</u>
Unallocated:	
Supplies	1 998 79
Telephone	1 516 61
Transportation	513 62
Printing and publishing	2 478 58
Dues and conferences	1 984 74
Postage	1 789 77
Miscellaneous	<u>742 04</u>
	<u>11 024 15</u>
Fire protection:	
Contracted services	<u>56 003 74</u>
Protective inspection:	
Salary	<u>6 900 00</u>
Planning commission:	
Wages	2 966 72
Supplies	8 880 00
Planner	3 583 97
Miscellaneous	<u>1 105 00</u>
	<u>16 535 69</u>
Appeals Board:	
Wages	<u>1 235 00</u>

TOWNSHIP OF SHARON
Washtenaw County, Michigan

GENERAL FUND EXPENDITURES BY DETAILED ACCOUNT
Year ended June 30, 2006

Highways and streets:	
Repairs and maintenance	<u>21 568 80</u>
Drains	<u>3 463 19</u>
Insurance	<u>11 465 00</u>
Social security	<u>5 634 85</u>
Capital outlay	<u>7 627 00</u>
Total Expenditures	<u><u>230 201 34</u></u>

TOWNSHIP OF SHARON
Washtenaw County, Michigan

CURRENT TAX COLLECTION FUND
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
Year ended June 30, 2006

	<u>Balance</u> <u>7/1/05</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>6/30/06</u>
<u>Assets</u>				
Cash and Investments	<u>79 532 78</u>	<u>2 263 834 28</u>	<u>2 334 866 62</u>	<u>8 500 44</u>
<u>Liabilities</u>				
Due to other funds	79 532 78	95 805 13	166 837 47	8 500 44
Due to others	<u>-</u>	<u>2 168 029 15</u>	<u>2 168 029 15</u>	<u>-</u>
Total Liabilities	<u>79 532 78</u>	<u>2 263 834 28</u>	<u>2 334 866 62</u>	<u>8 500 44</u>

CAMPBELL, KUSTERER & CO., P.C.

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AUDIT COMMUNICATION AND REPORT OF COMMENTS AND RECOMMENDATIONS

November 30, 2006

To the Township Board
Township of Sharon
Washtenaw County, Michigan

We have audited the financial statements of the Township of Sharon for the year ended June 30, 2006. As required by auditing standards generally accepted in the United States, the independent auditor is required to make several communications to the governing body having oversight responsibility for the audit. The purpose of this communication is to provide you with additional information regarding the scope and results of our audit that may assist you with your oversight responsibilities of the financial reporting process for which management is responsible.

AUDITOR'S RESPONSIBILITY UNDER AUDITING STANDARDS GENERALLY ACCEPTED IN THE UNITED STATES

We conducted our audit of the financial statements of the Township of Sharon in accordance with auditing standards generally accepted in the United States. The following paragraph explains our responsibilities under those standards.

Management has the responsibility for adopting sound accounting policies, for maintaining an adequate and effective system of accounts, for the safeguarding of assets, and for devising an internal control structure that will, among other things, help assure the proper recording of transactions. The transactions that should be reflected in the accounts and in the financial statements are matters within the direct knowledge and control of management. Our knowledge of such transactions is limited to that acquired through our audit. Accordingly, the fairness of representations made through the financial statements is an implicit and integral part of management's accounts and records. However, our responsibility for the financial statements is confined to the expression of an opinion on them. The financial statements remain the responsibility of management.

The concept of materiality is inherent in the work of an independent auditor. An auditor places greater emphasis on those items that have, on a relative basis, more importance to the financial statements and greater possibilities of material error than those items of lesser importance or those in which the possibility of material error is remote.

For this purpose, materiality has been defined as "the magnitude of an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would have been changed or influenced by the omission or misstatement."

An independent auditor's objective in an audit is to obtain sufficient competent evidential matter to provide a reasonable basis for forming an opinion on the financial statements. In doing so, the auditor must work within economic limits; the opinion, to be economically useful, must be formed within a reasonable length of time and at reasonable cost. That is why an auditor's work is based on selected tests rather than an attempt to verify all transactions. Since evidence is examined on a test basis only, an audit provides only reasonable assurance, rather than absolute assurance, that financial statements are free of material misstatement. Thus, there is a risk that audited financial statements may contain undiscovered material errors or fraud. The existence of that risk is implicit in the phrase in the audit report, "in our opinion."

To the Township Board
Township of Sharon
Washtenaw County, Michigan

In the audit process, we gain an understanding of the internal control structure of an entity for the purpose of assisting in determining the nature, timing, and extent of audit testing. Our understanding is obtained by inquiry of management, testing transactions, and observation and review of documents and records. The amount of work done is not sufficient to provide a basis for an opinion on the adequacy of the internal control structure.

SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies are described in Note 1 to the financial statements.

OTHER COMMUNICATIONS

Auditing standards call for us to inform you of other significant issues such as, but not limited to, 1) Accounting estimates that are particularly sensitive because of their significance to the financial statements or because of the possibility that future events affecting them may differ markedly from management's current judgments; 2) Significant audit adjustments that may not have been detected except through the auditing procedures we performed; 3) Disagreements with management regarding the scope of the audit or application of accounting principles; 4) Consultation with other accountants; 5) Major issues discussed with management prior to retention; and 6) Difficulties encountered in performing the audit.

We have no significant issues, regarding these matters, to report to you at this time. Audit adjustments were minimal, and are available to review.

COMMENTS AND RECOMMENDATION REGARDING INTERNAL CONTROLS/ COMPLIANCE/ EFFICIENCY

Our procedures disclosed the following conditions that we would like to bring to your attention:

SEGREGATION OF DUTIES

A separation of duties between persons who authorize transactions and persons who have control over the related assets does not always exist.

The least desirable accounting system is one in which an employee is responsible for executing the transaction and then recording the transaction from its origin to its ultimate posting in the General Ledger. This increases the likelihood that intentional or unintentional errors will go undetected. In most cases, adequate segregation of duties substantially increases control over errors without duplication of effort.

We understand that due to the size of needed staff, a proper segregation of duties may be impractical and the "cost to benefit" relationship may not justify the addition of accounting staff to accomplish the desired segregation.

These conditions were considered in determining the nature, timing and extent of the audit tests to be applied in our audit of the Township's financial statements and this communication of these matters does not affect our report on the Township's financial statements, dated June 30, 2006.

SUMMARY

We welcome any questions you may have regarding the foregoing comments and we would be happy to discuss any of these or other questions that you might have at your convenience.

Sincerely,

Campbell, Kusterer & Co., P.C.
CAMPBELL, KUSTERER & CO., P.C.
Certified Public Accountants